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SUBJECT: GREECE CRACKS DOWN ON HEATING OIL FRAUD

1. (U) Summary: The GoG announced on July 29th the implementation of a two-phase plan designed to crack down on the burgeoning illegal trade of heating oil for use in commercial diesel vehicles. Skyrocketing oil prices, and much lower taxation on heating oil compared to diesel fuel, have created a gray market for heating oil with commercial trucking firms using the heating oil in place of diesel fuel.

This trade, in which an estimated 40 percent of commercial vehicles participate, costs the GoG an estimated 1.5-3 billion euros annually in lost tax revenues. This loss comes at a time when the GoG needs every bit of revenue to bring down its high public deficit and staggering debt. In the first phase of the GoG's plan, tax authorities will crosscheck invoices submitted by both the distributors and consumers of heating oil. In the event of discrepancies, the theory goes, they will be able to track down the malfeasants.

In the second phase, heating oil transactions will be recorded automatically by smart cards, which will report the transactions directly to a computerized system monitored by the tax authorities. Ultimately, if successful, total GoG revenues could rise by as much as four percent annually as the result of proper enforcement. End Summary.

2. (U) The GoG has announced a two-phase plan that allows for the monitoring of heating fuel transactions through an invoice cross-checking system designed to discourage the illegal use of heating oil in diesel-powered commercial vehicles. The price of heating oil is significantly lower than the price of diesel, due to its substantially lower tax rate and, as a result, up to 40 percent of commercial vehicles illegally use the cheaper heating fuel in their diesel engines. The GoG estimates that this tax evasion has cost the treasury between 1.5 and 3 billion euros in lost revenues, which if collected would boost total GoG tax revenues by approximately 4 percent. The problem has been steadily rising with the increased cost of crude oil, and from February 2003 to June 2005 the Development Ministry fined 82 petrol stations a total of 4.5 million euros for illicitly trading fuel. Nevertheless, more needs to be done and the GoG has marked this trade as the first target in its campaign against tax evasion and corruption.

3. (U) The first stage of the new tracking plan requires both distributors and consumers of heating oil to submit signed invoices to the tax authorities that will contain the date and amount of the transaction. Any heating oil transactions where the distributor's invoice and the consumer's invoice do not match will be flagged for investigation for possible tax evasion. In the second phase, to begin in May 2006, all consumers of heating fuel will be issued a smart card, containing the end-users name, address, house size, and ID card and tax registration numbers. For every heating oil sale, distributors would swipe the Smart Card into portable terminals, which will transmit the transaction data to the relevant GoG authorities. This will allow for faster identification of phony transactions, as well as allowing the tax authorities to determine if heating oil purchases appear to be in line with heating needs, based on house size.

4. (U) The price of petroleum has reached record highs in Greece, causing consumption to fall in the first quarter of 2005, year on year. Greece is one of the most oil dependent countries in the EU, spending 3.5 percent of GDP on imported oil, compared to an EU average of 1.5 percent. Nevertheless, both the costs of heating oil and petrol in Greece are the second-cheapest in the eurozone, even after the April introduction of a one percent Value Added Tax (VAT) increase and an increase in the special consumption tax on gasoline and diesel.

5. (U) Comment: This plan completely overturns a previous GoG suggestion to eliminate the incentive for illegal trade by raising the tax rate on heating oil to that of diesel fuel. This tax increase would have doubled the cost of heating oil to the end user, which sparked considerable criticism from opposition parties and civic interests. The Government then floated two separate rebate plans designed to harmonize the diesel/heating oil tax rate but provide relief for consumers. However both were roundly criticized as being unworkable and/or unfair. The new system appears to add an additional, even bureaucratic, layer of control.

6. (U) Tax evasion of all types remains a significant problem in Greece, with some experts estimating that as much as 40 percent of the nation's GDP is unreported. Increased

monitoring of heating fuel transactions is a step in the right direction as taxes on petroleum products provide nearly nine percent of total tax revenues. Progress in defeating tax evasion is becoming even more necessary as the GoG is counting on a 11 percent increase in revenues to meet its Stability and Growth Pact deficit obligations, but mid-year revenue has increased by less than six percent. End Comment.
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